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Docket No. R-1181
 Jennifer J. Johnson
 Secretary
 Board of Governors of the Federal Reserve System
 20th Street and Constitution Avenue, NW
 Washington DC 20551

Dear Officials of Federal Bank and Thrift Agencies:

As a organization that works with in over twelve cities and counties in Ohio on lending issues and conducting HMDA studies I urge you to withdraw the proposed changes to the Community Reinvestment Act (CRA) regulations. CRA has been instrumental in increasing access to homeownership, boosting economic development, and expanding small businesses in the nations minority, immigrant, and low- and moderate-income communities. Your proposed changes are contrary to the CRA statute because they will halt the progress made in community reinvestment.

The proposed CRA changes will thwart the Administrations goals of improving the economic status of immigrants and creating 5.5 million new minority homeowners by the end of the decade. Instead, the proposed CRA changes would facilitate predatory lending and reduce the ability of the general public to hold financial institutions accountable for compliance with consumer protection laws.

The proposed changes include three major dements: 1) provide streamlined and cursory exams for banks with assets between \$250 million and \$500 million; 2) establish a weak predatory lending compliance standard under CRA; and 3) expand data collection and reporting for small business and home lending. The beneficial impacts of the third proposal are overwhelmed by the damage imposed by the first two proposals. In addition, the federal banking agencies did not update procedures regarding affiliates and assessment areas in their proposal, and thus missed a vital opportunity to continue CRAs effectiveness.

Streamlined and Cursory Exams. Under the current CRA regulations, large banks with assets of at least \$250 million are rated by performance evaluations that scrutinize their level of lending, investing, and services to low- and moderate-income communities. The proposed changes will eliminate the investment and service parts of the CRA exam for banks and thrifts with assets between \$250 and \$500 million. The proposed changes would reduce the rigor of CRA exams for 1,111 banks that account for more than \$387 billion in assets.

The elimination of the investment and service tests for more than 1,100 banks translates into considerably less access to banking services and capital for underserved

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communities. For example, these banks would no longer be held accountable under **CRA** exams for investing in **Low Income** Housing Tax Credits, which have been a major **source** of affordable rental housing needed by large numbers of immigrants and lower income segments of the minority population. Likewise, the banks would no longer **be** held accountable **for** the provision of bank branches, checking accounts, Individual **Development Accounts (IDAs)**, **or** debit card **services**. Thus, the effectiveness of the Administrations housing and community development programs would **be** diminished. Moreover, the federal bank agencies will fail to enforce **CRAs** statutory requirement that banks have a continuing and affirmative obligation to **serve** credit and deposit needs if they eliminate the investment and service test for **a** large subset of depository institutions.

Predatory Lending Standard. The proposed CRA changes contain an anti-predatory screen that **will** actually perpetuate abusive lending. The proposed standard states that loans based on the foreclosure value of the collateral, instead of the ability of the borrower to repay, can result in downgrades in **CRA** ratings. The asset-based **standard** falls short because it will not **cover** many instances of predatory lending. For example, abusive lending would not result in lower **CRA** ratings when it strips equity without leading to delinquency or foreclosure. In other words, borrowers can have the necessary income to **afford** monthly payments, but they are still losing wealth as a result of a lender's excessive fees or unnecessary products.

CRA exams will allow abusive lending if they contain the **proposed** anti-predatory standard that does not **address** the **problems** of the packing of fees into mortgage loans, high prepayment penalties, loan flipping, mandatory **arbitration**, and other numerous abuses. Rigorous fair lending audits and severe penalties **on** CRA exams for abusive lending are necessary in order to ensure that the new minority homeowners served **by** the Administration are protected, but the proposed predatory lending standard will not **provide** the necessary protections. In addition, an anti-predatory standard must apply to all **loans** made by the bank and all of its **affiliates**, not just **real-estate** secured loans issued **by** the bank in its assessment areas proposed **by** the agencies. By shielding **banks** from the consequences of abusive lending, the proposed standard **will** frustrate **CRAs** statutory requirement that banks **serve** low- and moderate-income communities consistent with **safety** and soundness.

Enhanced data disclosure. The federal agencies propose that they will publicly report the specific **census** tract location of small businesses receiving loans in addition to the current items in the CRA small business data for each depository institution. This will improve the ability of the general public to **determine** if banks are serving traditionally neglected neighborhoods with small business loans. Also the regulators **propose** separately reporting purchases from **loan** originations on **CRA exams** and separately reporting high cost lending (per the new HMDA data requirement starting with the 2004 data).

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The positive aspects of the proposed data enhancements do not begin to make up for the significant harm caused by the first two proposals. Furthermore, the federal agencies are not utilizing the data enhancements in order to make **CRA** exams more rigorous. The agencies must not merely report the new data on CRA exams, but must use the **new** data to provide less weight on CRA exams to high cost loans than prime loans and assign less weight for purchases than loan originations.

Missed Opportunity to Update Exam Procedures: The agencies **also** failed to close gaping loopholes in the **CRA** regulation. Banks can still elect to include affiliates on **CRA** exams at their option. They **can** thus manipulate their **CRA** exams by excluding affiliates not serving low- and moderate-income borrowers and excluding affiliates engaged in predatory lending. The game playing with affiliates **will** end only if the federal agencies require that all **affiliates** be included on exams. Lastly, the proposed changes do not address the need to update assessment areas to include geographical areas beyond **bank** branches. Many banks make considerable portions of their loans beyond their branches; this non-branch lending activity will not be scrutinized by CRA exams.

The proposed changes to CRA will directly undercut the Administrations emphasis on minority homeownership and immigrant access to jobs and banking services. The proposals regarding streamlined exams and the anti-predatory lending standard threaten **CRA's** statutory purpose of the safe and sound provision of credit and deposit services. The proposed data enhancements would become much more meaningful if the agencies update procedures regarding assessment areas, affiliates, and the treatment of high cost loans and purchases on **CRA** exams. **CRA** is simply a law that makes capitalism work for all Americans. **CRA** is too vital to be gutted by harmful regulatory changes and neglect. Thank you for your attention to this critical matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald B. Eager", is written over a light gray rectangular background.

Donald B. Eager
President

cc:

National Community Reinvestment Coalition
President George W. Bush
Treasury Secretary John W. **Snow**